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Viewing cable 06BRATISLAVA657, SLOVAKIA APPEARS TO CHANGE COURSE ON TRANSPETROL.

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- The middle box contains the header information that is associated with the cable. It includes information about the receiver(s) as well as a general subject.
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Reference ID	Created	Released	Classification	Origin
06BRATISLAVA657	2006-08-08 13:29	2011-08-30 01:44	CONFIDENTIAL	Embassy Bratislava

Appears in these articles:

<http://www.mcclatchydc.com/2011/05/16/114269/wikileaks-cables-show-oil-a-major.html>

VZCZCXRO4058
PP RUEHDBU RUEHFL RUEHKW RUEHLA RUEHROV RUEHSR
DE RUEHSL #0657/01 2201329
ZNY CCCCC ZZH
P 081329Z AUG 06
FM AMEMBASSY BRATISLAVA
TO RUEHC/SECSTATE WASHDC PRIORITY 0176
INFO RUEHZL/EUROPEAN POLITICAL COLLECTIVE PRIORITY
RUEHAK/AMEMBASSY ANKARA PRIORITY 0034
RUEHMO/AMEMBASSY MOSCOW PRIORITY 0592
RUEHVL/AMEMBASSY VILNIUS PRIORITY 0124
RUEHWR/AMEMBASSY WARSAW PRIORITY 3320
RUEATRS/DEPT OF TREASURY WASHDC PRIORITY
RUCPDOC/DEPT OF COMMERCE WASHDC PRIORITY
RHEBAAA/DEPT OF ENERGY WASHDC PRIORITY

C O N F I D E N T I A L SECTION 01 OF 04 BRATISLAVA 000657

SIPDIS

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E.O. 12958: DECL: 08/07/2016

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SUBJECT: SLOVAKIA APPEARS TO CHANGE COURSE ON TRANSPETROL.

REF: A. A) BRATISLAVA 613

Classified By: Charge D'Affaires Lawrence R. Silverman for reasons 1.4(c)
b) and (d).

11. (C) Summary. On August 3-4, Special Advisor Steve Hellman met with high-ranking GOS officials, including Prime Minister Robert Fico and Minister of Economy Lubomir Jahnatek, to discuss the benefits of buying back shares in Transpetrol from Yukos Finance rather than approving a quick sale to Gazprom Neft. Before Hellman's visit, all indications suggested that the GOS would shortly approve a sale to Gazprom Neft, because they felt browbeaten by the Russians and had come to believe they had limited choice and leverage in the matter. Through the series of meetings, GOS officials started to seriously reconsider the buy-back option. To address GOS concerns that Yukos Finance did not want to negotiate with the GOS, Hellman offered to intercede with company officials on behalf of the GOS -- if the GOS was certain it wanted to pursue a buy-back option. On August 7, Jahnatek announced that he will be meeting with Yukos Finance in Bratislava on August 9. On August 8, Jahnatek expressed to CDA that the GOS fully supports the buy-back option and will pursue such a deal with Yukos. End Summary.

Pre-Visit State of Affairs

12. (C) Hellman's visit was precipitated in large part by a July 27 meeting between Ambassador Vallee and Minister of Economy Jahnatek, in which the Minister implied that sale of Yukos stock to Gazprom Neft was imminent, and might take place before Yukos International bankruptcy proceedings started in early August (see reftel A). Subsequent contacts with the GOS -- including Charge's August 2 meeting with Minister of Economy State Secretary Peter Ziga -- tempered our concerns about a quick GOS decision. It still seemed apparent, however, that Gazprom Neft would gain the 49 percent share from Yukos sometime in the next month unless strong action was taken. Prior to the visit, Ambassador Vallee and Hellman decided to simplify USG strategy: rather than discuss two options -- buying back the shares or selling to a non-Russian competitor (such as the Polish firm PERN, the American firm MEZI, etc.) -- we would focus specifically on the buy-back option. This was decided on the basis that selling Yukos shares to a non-Russian third party would not be a politically viable option in the minds of GOS officials, and mentioning it would dilute our central message.

Opening Meetings

13. (C) On August 3, Hellman and CDA met with Minister of Foreign Affairs Jan Kubis to discuss the Transpetrol situation. On July 24-25, Kubis travelled to Moscow with Jahnatek and met with Gazprom representatives; upon his return he had suggested to Ambassador Vallee that sale to Gazprom might be acceptable as long as Slovakia regains management control of Transpetrol (see reftel B). To counter this line of reasoning, Hellman focused on our major reasons for supporting a buy-back, including Slovakia's energy security and the financial benefits of Transpetrol ownership. Kubis responded by saying, "Your basic premise is we can buy back the shares. But no one is selling." It became apparent that Kubis and other high-ranking GOS officials had become convinced that meaningful conversation with Yukos Finance had been cut off, and that any arguments in favor of a buy-back were purely theoretical under the circumstances. The major challenge in upcoming meetings would be to convince the Prime Minister and the Minister of Economy that Yukos Finance could in fact be brought to the table.

14. (SBU) The following morning, Hellman and Emboff met with the Marian Jusko, CEO of Slovnaft, and later with Stefan Czucz, Chairman of the Board of Directors at Transpetrol. Slovnaft, through its parent company MOL, had itself expressed tentative interest in purchasing Transpetrol shares

from Yukos. Slovnaft said their basic relationship with Yukos and Russian suppliers had been positive, and they wanted to continue receiving oil from the Urals without difficulty. They believed that re-equipping their refinery to process Caspian crude would not be feasible, though Hellman tried to disabuse them of that notion. In general, Slovnaft executives left an impression that they would be content with a Gazprom purchase as the path of least resistance.

Prime Minister not-so-Sinister

¶ 15. (C) After the GOS finally concluded its extended opening session of Parliament in the wee hours of the the morning on August 4, Prime Minister Fico agreed to meet with Hellman and CDA at the Parliament building. The Prime Minister was alone, and held the meeting entirely in English without translation. Fico appeared relaxed (albeit tired), and open to further points of view on the Transpetrol issue. He opened remarks by quickly running through the range of possible options for the GOS, including re-purchase of Yukos shares for \$110 million (noting that this would create a hole in the budget), and sale to a variety of business interests from Russia, Poland, and the Czech Republic. He added that his Cabinet planned to discuss Transpetrol in its first meeting on August 9, but he could not say when a decision would be reached.

¶ 16. (C) In response, Hellman made the key arguments favoring a buy-back. He noted that Transpetrol has an annual net cash flow of \$30 to \$40 million per year and has no debt, meaning that the 49 percent stake would return \$15 to \$20 million annually -- an amount that could easily facilitate financing of a buy-back without having to use one korun of state funds. Simply put, a buy-back makes economic sense. He then started to discuss Yukos Finance's self interest, at which point the Prime Minister interjected, "would Yukos be interested in selling to us?" Hellman emphasized the company's need to liquidate assets and its strong dislike of businesses affiliated with the Russian government. Hellman also suggested that he could talk with key people in Yukos as needed, if the GOS were serious about a buy-back. He also emphasized that after a buy-back the GOS would have the option to announce re-privatization of Transpetrol in 2009, which would give Slovakia leverage as it renegotiated its gas and nuclear fuel contracts in 2007.

¶ 17. (C) The arguments we provided narrowed Fico's focus in a helpful way. The Prime Minister concluded that, given his country's needs, he has two "relevant options": 1) to buy back the shares from Yukos, or 2) to approve a sale to Gazprom or another Russian firm. Fico observed that selling to a Polish firm would only infuriate the Russians without benefit to Slovakia. Selling to a Czech firm would be less problematic, he said, but would not be a strategic decision. He thanked us for providing additional information, particularly on the financial aspects of a Transpetrol buy-back, and asked us to discuss the situation with the Minister of Economy in greater detail.

Three Hours with the Minister

¶ 18. (C) Which we did. In a meeting that lasted nearly three hours, Hellman laid out the reasons for a buy-back with Minister of Economy Jahnatek and Maros Kondrot, Chairman of the Parliamentary Committee on the Economy. Jahnatek was still feeling the pressure from the Russians, as he had emphasized in his first meeting with the Ambassador. Kondrot's presence at the meeting was important since he has been strongly in favor of a buy-back, and had expressed concern to the Embassy that Jahnatek might be about to sign off on a bad deal. (Note: Kondrot has been in regular communication with the Embassy on Transpetrol over the past two weeks, and we would not have secured the meeting with Prime Minister Fico without Kondrot lobbying for it.)

¶ 9. (C) As Hellman made the arguments for pursing a buy-back option, Jahnatek seemed visibly stressed and brow-beaten, as if to say: "I know. I know. But how can I possibly do this?"

Jahnatek offered that his first idea was to buy back the shares, but he lamented that Yukos never gave an official response to his request last month for a meeting to discuss re-purchasing Transpetrol shares. He feared Yukos' seeming lack of interest was part of a strategy to freeze the Minister of Economy out of the negotiating process until his veto power over Transpetrol expires in April 2007. Jahnatek said that, under the circumstances, he was forced to find the best deal in which: 1) Slovakia could regain management control of Transpetrol; 2) pipeline flow would be increased from 10.4 to over 16 million tons per year, 3) the extensions to Schwechat and Odessa-Brody would be completed and operational.

¶ 10. (C) Hellman stripped down the Slovaks' perceived problems and explained the real possibilities of a buy-back. He also why Gazprom was not the best vehicle for reaching the goals outlined, particularly goal #1. He also discussed the threats that Russia had made toward Lithuania, and explained how Slovakia actually had a much better hand of cards than Lithuania in this situations (see reftel C). As Jahnatek slowly became convinced that it would be able to co-exist with Russia in the case of a buy-back, he asked if Hellman could arrange a response from Yukos Finance to his meeting requests. He said it had always been his personal preference to buy back the shares, but he only had two weeks in which to reach a decision. Hellman responded by telling Jahnatek that he would do his best to help with Yukos if the GOS was sure it would follow through on the buy-back option. Jahnatek nodded and said, "for the first time I understood exactly what you said (before the translation)." The Minister said that he would speak further with the Prime Minister on the subject later that day.

¶ 11. (C) After the meeting concluded, Hellman held a separate short meeting with Kondrot to ensure he stays in close touch with us on this matter. An hour later, Hellman met briefly with Peter Kazimir, State Secretary at the Ministry of Finance, to drive home the point that a buy-back of Yukos shares could be financed without breaking into the state budget. The message was well received. Also, before leaving for Russia, Hellman met briefly with PERN board member Marcin Jastrzebski to make sure they were clear about the direction we were taking.

Jahnatek in Action

¶ 12. (C) On the afternoon of August 4, our meeting with Jahnatek was announced in the local press. Interestingly, the article said that Jahnatek delivered to us the message that the GOS preferred to buy back its shares; the U.S. position on the matter was not specifically mentioned. (Note: Hellman requested to Jahnatek during the meeting that, if asked by the press, he should say that we were there to advance U.S. commercial interests.) The meeting between Hellman and Prime Minister Fico did not make the local papers. Also that afternoon, Jahnatek made a request to Bill Shoff, Director of Finance at Yukos Finance in London, to come to Bratislava next week for consultations. On the afternoon of August 7, after meeting with President Gasparovic earlier in the day, Jahnatek announced to local journalists that he would be meeting with representatives of Yukos in Bratislava on Wednesday, August 9. Jahnatek added that buying back Transpetrol shares was the top priority for Slovakia.

¶ 13. (C) On August 7, Ambassador Vallee heard from Steve Theede, the recently departed CEO of Yukos International, who is still involved in Yukos Finance's decision-making process. Theede indicated to the Ambassador that selling Transpetrol shares back to Slovakia would be the preferred option for himself, and for other Yukos colleagues. On the morning of August 8, CDA relayed this information in a telephone conversation with Minister Jahnatek. Jahnatek was enthused

by the news. He added that he had just met with Prime Minister Fico and President Gasparovic, and that they were all in favor of pursuing the buy-back option. The Minister said that he would like to reach a quick decision with Yukos Finance -- possibly in the next two days -- in order to avoid further complications. He also asked if Hellman could talk to his contacts at Yukos to facilitate reaching such a deal.

¶14. (C) Comment: It is striking that Minister of Economy Jahnatek has suddenly scheduled a meeting with Yukos Finance for August 9, after taking the position for several weeks that he couldn't strike a deal with Yukos because no one would talk with him. The USG did not intercede with Yukos to make the meeting happen, but the credible suggestion that Hellman could do so seemed to spur Jahnatek into action. It is still possible that this meeting with Yukos Finance is for show, but mounting evidence suggests that the GOS has really altered its course. There is still much that needs to happen in order for the buy-back to become a reality, especially considering that a few days ago the GOS had all but decided to strike a deal with Gazprom. Jahnatek's present concern seems to be whether the GOS can come to a deal before the Russians intervene somehow. In any case, we have gotten across the idea that the GOS has more and better options on Transpetrol. Given our general concern that PM Fico tends to undervalue Slovakia's international role and potential influence, the GOS response to our message sends positive signals for the future. End Comment.

SILVERMAN